

**REPORT OF THE AUDIT OF THE
WOLFE COUNTY
SHERIFF'S SETTLEMENT - 2019 OIL AND GAS TAXES**

**For The Period
April 16, 2019 Through July 15, 2020**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Raymond Banks, Wolfe County Judge/Executive
The Honorable Chris Carson, Wolfe County Sheriff
Members of the Wolfe County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Wolfe County Sheriff's Settlement - 2019 Oil and Gas Taxes for the period April 16, 2019 through July 15, 2020 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Raymond Banks, Wolfe County Judge/Executive
The Honorable Chris Carson, Wolfe County Sheriff
Members of the Wolfe County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Wolfe County Sheriff on the basis of accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky’s regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the taxes charged, credited, and paid of the Wolfe County Sheriff, for the period April 16, 2019 through July 15, 2020.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2019 through July 15, 2020 of the Wolfe County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2021, on our consideration of the Wolfe County Sheriff’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wolfe County Sheriff’s internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2019-001 The Sheriff’s Office Does Not Have Adequate Segregation Of Duties
- 2019-002 The Sheriff Did Not Make Daily Deposits

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

January 20, 2021

WOLFE COUNTY
CHRIS CARSON, SHERIFF
SHERIFF'S SETTLEMENT - 2019 OIL AND GAS TAXES

For The Period April 16, 2019 Through July 15, 2020

	Special Taxing			
	County	Districts	School	State
<u>Other Taxes & Charges</u>				
Oil Property Taxes	\$ 6,572	\$ 32,143	\$ 32,101	\$ 10,279
Gas Property Taxes	139	681	680	218
Penalties	2	9	8	2
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	6,713	32,833	32,789	10,499
<u>Credits</u>				
Discounts	48	235	235	75
Delinquent Oil Taxes	152	745	744	238
Delinquent Gas Taxes	4	19	19	6
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	204	999	998	319
Taxes Collected	6,509	31,834	31,791	10,180
Less: Sheriff's Commissions*	277	1,353	1,271	433
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due Districts	6,232	30,481	30,520	9,747
Taxes Paid	6,232	30,481	30,520	9,747
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due Districts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on	\$	48,523
4% on	\$	31,791

The accompanying notes are an integral part of this financial statement.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT

July 15, 2020

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Preparation of State Settlement

The Kentucky Department of Revenue prepares the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The Wolfe County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT
July 15, 2020
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Wolfe County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of July 15, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The oil and gas property tax assessments were levied as of January 1, 2019. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2020 through July 15, 2020.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Raymond Banks, Wolfe County Judge/Executive
The Honorable Chris Carson, Wolfe County Sheriff
Members of the Wolfe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Wolfe County Sheriff's Settlement - 2019 Oil and Gas Taxes for the period April 16, 2019 through July 15, 2020 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated January 20, 2021. The Wolfe County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Wolfe County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Wolfe County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Wolfe County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Wolfe County Sheriff's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-002.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

January 20, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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WOLFE COUNTY
CHRIS CARSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2019 Through July 15, 2020

FINANCIAL STATEMENT FINDINGS:

2019-001 The Sheriff's Office Does Not Have Adequate Segregation Of Duties

The sheriff's office does not have adequate segregation of duties. A deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The sheriff has delegated the responsibilities of collecting, depositing, and recording all receipts and preparing/recording all checks to the bookkeeper. In addition, the bookkeeper prepares all bank reconciliations. No effective review or oversight procedures were noted.

The sheriff's failure to adequately separate these duties increases the risk that errors and misstatements can occur, either accidental or intentional, and not be detected in a reasonable time period. Good internal controls dictate that the same employee should not be handling, recording and reconciling cash receipts. Authorized check signers should be independent of check preparation, cash receiving, and purchasing.

We recommend the sheriff adequately segregate the functions of receiving, recording, and reconciling transactions to separate individuals. If this is not possible due to small staff size, the sheriff can implement and document compensating controls in order to limit the potential impact of inadequate segregation of duties. Examples of these compensating controls include:

- The sheriff or his designee should compare the daily bank deposit to the daily checkout sheet, and then compare the daily checkout sheet to the receipts ledger.
- The sheriff or his designee should compare the monthly financial reports to the receipts and disbursements ledgers for accuracy.
- The sheriff or his designee should periodically compare the amounts due districts per the monthly reports to the payments to the taxing districts.
- The sheriff or his designee should periodically compare the monthly bank reconciliation to the balance in the checkbook and to the ledgers
- All disbursement checks should be signed by two people, with one being the sheriff or his designee.

All compensating controls should be documented by initialing and dating the source documentation.

Sheriff's Response: The official did not provide a response.

2019-002 The Sheriff Did Not Make Daily Deposits

The sheriff did not batch receipts daily and make daily deposits. Amounts reported on daily checkout sheets were properly documented and deposited, however, this was not achieved on a daily basis. We tested one week of daily receipts for March 16-20, 2020. We noted that the daily checkout sheet dated March 17 included receipts for March 13 and March 16. No daily checkout sheet was prepared for March 13 or March 16. Likewise, the checkout sheet dated March 19 included receipts dated March 18 and 19, which indicates that receipts are being batched several days at a time and summarized on one checkout sheet.

The bookkeeper was new for 2019 tax collections and was not familiar with all the requirement regarding daily deposits. The sheriff failed to implement proper oversight and review procedures to ensure that receipts were being batched and deposited daily. Failure to deposit receipts daily increases the risk that funds will be lost, stolen, or otherwise misappropriated.

WOLFE COUNTY
CHRIS CARSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2019 Through July 15, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Sheriff Did Not Make Daily Deposits (Continued)

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual*, page 64, sets forth the minimum requirements for local officials handling public funds and requires “daily deposits intact into a federally insured banking institution.”

We recommend the sheriff’s office batch receipts daily, prepare a checkout sheet daily, and make daily deposits as required per the *County Budget Preparation and State Local Finance Officer Policy Manual*.

Sheriff’s Response: The official did not provide a response.